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C O N F I D E N T I A L SECTION 01 OF 02 KYIV 000022

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SUBJECT: UKRAINE: YUSHCHENKO ORDERS NBU TO ASSIST WITH GAS
PAYMENT

REF: KYIV 17

Classified By: CDA James D. Pettit for Reasons 1.4 (b) and (d).

¶1. (SBU) Summary. President Yushchenko ordered the National Bank of Ukraine (NBU) on January 6 to find a mechanism to monetize Naftohaz-held government bonds in order for the state-owned gas company to make the January 11 payment for Russian gas purchased in December. Naftohaz might also be able to use limited transit revenues paid to it by Gazprom for a portion of the payment. Yushchenko's intervention will likely end the dispute between the NBU and Prime Minister Tymoshenko's government (Reftel) and ensure that Ukraine makes the gas payment on time and in full.

¶2. (SBU) On January 6 President Yushchenko instructed NBU Governor Vladimir Stelmakh to find a way to redeem Naftohaz-held government bonds in order to make the January 11 gas payment for gas bought in December. Yushchenko stated that Tymoshenko's government had shown that it was unable to monetize the bonds. Therefore, he continued, Naftohaz was short the \$900 million needed for the January 11 payment. The GOU injected an additional UAH 12 billion in state bonds to the statutory capital of Naftohaz at the end of December ¶2009. Minister of Fuel and Energy Yuriy Prodan stated on January 6 that Naftohaz owes Gazprom \$892 million for approximately 4.3 billion cubic meters of gas purchased in December.

¶3. (SBU) President Yushchenko's Envoy for International Energy Security Bogdan Sokolovsky told us on January 5 that approximately 40% of the payment would be made from funds Naftohaz was able to "collect" in the internal market. Sokolovsky said Ukraine's international reserves would be used to make portions of the January 11 gas payment and payments for the first quarter of 2010. Sokolovsky criticized the use of the NBU's limited reserves for this purpose but did not see an alternative method to make the gas payment to Russia.

¶4. (SBU) Naftohaz spokesman Valentyn Zemlyansky told us on January 6 that the National Bank, as it had announced to Interfax-Ukraine on January 5, would make available reserves for Ukrainian companies to meet their foreign obligations. He later confirmed that the National Bank would monetize Naftohaz-held government bonds, as President Yushchenko had instructed earlier in the day. He said that domestic banks would be used in the transaction, but would not comment on which ones. Zemlyansky told us that Naftohaz hoped to pay Gazprom by the end of the day, but if it was unable to it would have to wait until January 11 given that January 7 and

8 are bank holidays in both Ukraine and Russia.

15. (SBU) Naftohaz might also be able to use limited transit revenues to cover a portion of the \$892 million payment. In early 2009, Gazprom advanced Naftohaz approximately \$2 billion as advanced transit payments. Since volumes of Russian gas transited to Europe via Ukraine were dramatically lower than average in 2009, the advanced transit payment covered all of 2009 and the first quarter of 2010. The advance, however, was calculated based on the 2009 transit rate of \$1.70 per 1,000 kilometers (km) per thousand cubic meters (tcm) of gas. As of January 1, the transit rate increased to \$2.70 per 1,000 km/tcm. Gazprom has apparently agreed to credit Naftohaz's account for gas purchased in December 2009 with the extra transit revenue Ukraine should earn in the first quarter of 2010.

16. (SBU) On January 4, Naftohaz Deputy Chairman Vadym Chuprun told Ukrainian news agency UNIAN that Naftohaz would use the extra transit revenue owed Ukraine for gas purchases in December 2009 and the first quarter of 2010. Sokolovsky told us that Naftohaz would only be able to cover about half of the January 11 gas payment with the extra transit revenue.

17. (C) Comment. President Yushchenko's late intervention with the National Bank of Ukraine will likely ensure that Naftohaz has the funds it needs to make the January 11 payment to Gazprom. While Yushchenko fundamentally disagrees with using Ukraine's international reserves to make the gas payment to Russia, he will use Naftohaz's payment difficulties as yet more ammunition against the Prime

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Minister, attacking both the gas contracts she negotiated with Russia in January 2009 and her inability to manage the economy. End comment.
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